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Page: A1

Twin River bankruptcy probable, agency says

Moody's Investment Services says the fact that Twin River has stopped making interest payments on its debt has increased the chances of a bankruptcy filing.

BY KATHERINE GREGG
JOURNAL STATE HOUSE BUREAU

PROVIDENCE — A second major credit rating agency has downgraded the company that owns the Twin River greyhound track and slot parlor in Lincoln, citing "the high probability that the company may be forced to seek bankruptcy protection in the near term."

Last Friday, the Standard & Poor's rating service lowered the company to "D," noting the company had missed a Sept. 2 interest payment on $145 million in loans to its second-lien lenders.

> "Can this market and its surrounding area really support this type of facility with the debt burden that it has?"
>
> **PEGGY HOLLOWAY,** Moody's vice president

Yesterday, Moody's Investors Service downgraded its rating of the company's creditworthiness and issued a statement that said: "A negative rating outlook was assigned to reflect the high probability that the company may be forced to seek bankruptcy protection in the near term. This rating action concludes the review for possible downgrade that commenced March 10, 2008."

Asked if the company was indeed on the verge of bankruptcy, Twin River spokeswoman Patti Doyle de-

SEE TWIN RIVER, A5

Page 1 of 2

Twin River

Continued from Page A1

clined comment but said: "The Moody's report was not unexpected. It certainly doesn't change our intention to continue the dialogue with lenders, vendors and the state over the coming months."

Twin River is owned and operated by UTGR, a subsidiary of a holding company comprising Kerzner International Limited, Starwood Capital Group and Waterford Group LLC. The company bought the aging Lincoln Park dog track in 2005, along with three greyhound racetracks and a horse track in Colorado, and then embarked on a $225-million renovation and expansion of the Lincoln facility to accommodate 4,751 video-slot machines.

The owners have not disclosed how much remains on their loans, but the Moody's statement said the downgrade affects $565 million in debt.

The first sign that Twin River's owners were in financial trouble came in March, when they missed a loan payment to their lenders, led initially by the Merrill Lynch Capital Group, JPMorgan Chase and the Deutsche Bank. The lenders gave the owners a reprieve until Aug. 29. That was extended recently until Jan. 31, 2009, under the terms of a "forbearance agreement" that allows the company to suspend payments to some lenders, but also requires the company to meet a series of undisclosed "monthly benchmarks."

Asked if yesterday's downgrade reflected concern that Twin River would not produce enough earnings to meet those benchmarks, Moody's vice president and senior credit officer Peggy Holloway said: "Yes."

As anticipated, the company skipped an interest payment to its second-lien lenders on Sept. 2. The problem: these "junior" lenders did not sign onto the forbearance agreement.

The lenders are barred for 180 days from taking any action to collect the monies due them that might force Twin River into bankruptcy, but as the clock ticks, Twin River has been trying to negotiate a "restructured" agreement with its lenders while seeking unspecified "concessions from the state which is counting heavily on its slot-revenue to run state government.

OUT OF EVERY DOLLAR lost at Twin River, the state gets approximately 61 cents. If expectations panned out, the state would get $254 million from Twin River this year. In June, the owners offered the state $500 million upfront if lawmakers would slice the rate by more than half. Legislative leaders refused.

Holloway, of Moody's, said "the state has — and I think it is pretty well known — a pretty onerous tax rate, and this property has produced a far lower level of revenues and earnings than was anticipated at the time the project was started."

"From the rating-agency perspective, we don't assume the tax rate will change," Holloway said. "So the question becomes ... can this market and its surrounding area really support this type of facility with the debt burden that it has .... I think the original assumption given the population density and that the property was convenient and had a loyal following was that it had a greater earnings potential than it is demonstrating."

Holloway said "the fact that they stopped paying interest just means in our view that the restructure negotiations are obviously difficult and the probability the company will experience a distressed exchange or a bankruptcy has increased."

In a bankruptcy, she explained, "everything stops ... the brakes are put on and the court says 'can we sort this out?' " In a distress exchange, she said, the lenders "agree to basically hand in their existing notes in exchange for new notes that have less-beneficial economic terms. It could be they agree to reduce the principal amount. They agree to reduce the interest. They extend the maturity ... in other words, the deal they signed up for isn't the deal they wind up with."

She said she could not comment further on Twin River's circumstances beyond what is stated in the new ratings report. But she said a lender who is not getting paid and is being asked to hold off on exercising its legal remedies would have to make a choice "whether I want to continue forbearing in the hope that I can get a better deal or do I push the company into bankruptcy now."

State Department of Revenue Director Gary Sasse said he met again yesterday with the lawyers and financial advisers to the state who have "been analyzing the different options that are being put on the table," and "anticipate being in a position to respond to BLB before the expiration of the forbearance agreement."

kgregg@projo.com / (401) 277-7078